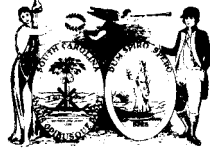


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

September 12, 2001

Mr. Steven Gentzler, CFO
Connelly Management, Inc.
410 Mill Street, Suite 201
Mt. Pleasant, South Carolina 29464

Re: AC# 3-CON-J8 – Conway Nursing Center, Inc.

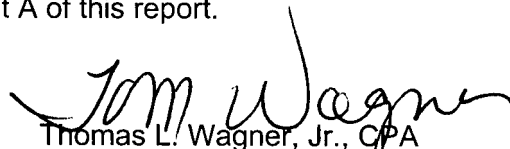
Dear Mr. Gentzler:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

CONWAY NURSING CENTER, INC.

CONWAY, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-CON-J8**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

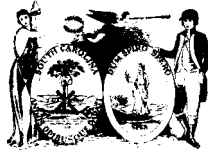
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 4, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Conway Nursing Center, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

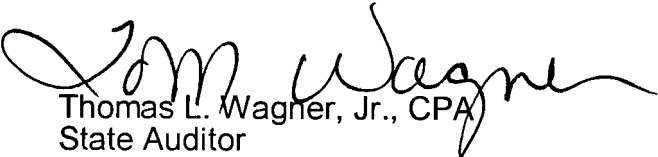
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Conway Nursing Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis, and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Conway Nursing Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 4, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

CONWAY NURSING CENTER, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-CON-J8

Interim reimbursement rate (1)	\$81.83
Adjusted reimbursement rate	<u>78.92</u>
Decrease in reimbursement rate	\$ <u><u>2.91</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

CONWAY NURSING CENTER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period Beginning October 1, 1999
AC# 3-CON-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.58	\$50.88	
Dietary		8.25	9.69	
Laundry/Housekeeping/Maint.		<u>7.26</u>	<u>8.24</u>	
Subtotal	\$ <u>4.82</u>	51.09	68.81	\$51.09
Administration & Med. Rec.	\$ <u>4.09</u>	<u>7.47</u>	<u>11.56</u>	<u>7.47</u>
Subtotal		58.56	<u>\$80.37</u>	58.56
<u>Costs Not Subject to Standards:</u>				
Utilities		2.07		2.07
Special Services		.18		.18
Medical Supplies & Oxygen		4.96		4.96
Taxes and Insurance		1.09		1.09
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$66.87</u>		66.87
Inflation Factor (3.00%)				2.01
Cost of Capital				6.90
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.34
Cost Incentive				4.82
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.41)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.64</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$78.92</u>

CONWAY NURSING CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-CON-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,433,450	\$ 10,545 (7) 746 (7)	\$ 30,183 (1) 19,971 (15) 1,411 (15)	\$2,393,176
Dietary	555,998	1,165 (7)	2,207 (15)	554,956
Laundry	83,814	273 (7)	518 (15)	83,569
Housekeeping	272,071	1,191 (7) 4,560 (13)	2,256 (15)	275,566
Maintenance	142,337	294 (7) 2,329 (13)	15,200 (5) 557 (15)	129,203
Administration & Medical Records	521,733	13,726 (4) 721 (7) 30 (7) 2,683 (13)	1,000 (6) 33,798 (8) 1,365 (15) 55 (15)	502,675
Utilities	137,170	2,235 (13)	-	139,405
Special Services	93,762	57,477 (1) 9,581 (12)	15,050 (7) 133,624 (11)	12,146
Medical Supplies & Oxygen	313,572	30,183 (1) 85 (7)	9,897 (11) 160 (15)	333,783

CONWAY NURSING CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-CON-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	95,322	29,992 (2) 2,334 (13)	24,549 (3) 29,992 (9)	73,107
Legal Fees	16,314	144 (13)	15,450 (15)	1,008
Cost of Capital	487,708	13,263 (13)	29,992 (2) 4,684 (9) 74 (10) <u>1,802 (14)</u>	464,419
Subtotal	5,153,251	183,557	373,795	4,963,013
Ancillary	101,654	-	-	101,654
Non-Allowable	378,570	24,549 (3) 15,200 (5) 1,000 (6) 33,798 (8) 34,676 (9) 143,521 (11) 1,802 (14) <u>43,950 (15)</u>	57,477 (1) 13,726 (4) 9,581 (12) 27,548 (13)	568,734
Total Operating Expenses	<u>\$5,633,475</u>	<u>\$482,053</u>	<u>\$482,127</u>	<u>\$5,633,401</u>
Total Patient Days	<u>67,270</u>	<u>-</u>	<u>-</u>	<u>67,270</u>
TOTAL BEDS	<u>190</u>			

CONWAY NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-CON-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Special Services	\$ 57,477	
	Medical Supplies	30,183	
	Nonallowable		\$ 57,477
	Nursing		30,183
	To adjust therapy purchased services and to reclassify expense per provider's amended cost report State Plan, Attachment 4.19D		
2	Taxes and Insurance	29,992	
	Cost of Capital		29,992
	To reclassify expense per provider's amended cost report State Plan, Attachment 4.19D		
3	Nonallowable	24,549	
	Taxes and Insurance		24,549
	To adjust property taxes State Plan, Attachment 4.19D		
4	Administration	13,726	
	Nonallowable		13,726
	To adjust advertising and want ads per provider's amended cost report State Plan, Attachment 4.19D		
5	Nonallowable	15,200	
	Maintenance		15,200
	To remove expense not adequately documented HIM-15-1, Section 2304		
6	Nonallowable	1,000	
	Administration		1,000
	To remove down payment that was capitalized State Plan, Attachment 4.19D		

CONWAY NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-CON-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nursing	10,545	
	Restorative	746	
	Dietary	1,165	
	Laundry	273	
	Housekeeping	1,191	
	Maintenance	294	
	Administration	721	
	Medical Records	30	
	Medical Supplies	85	
	Special Services		15,050
	To adjust fringe benefit allocation HIM-15-1, Section 2304		
8	Nonallowable	33,798	
	Administration		33,798
	To remove working capital interest expense HIM-15-1, Sections 202.2 and 202.3		
9	Nonallowable	34,676	
	Taxes and Insurance		29,992
	Cost of Capital		4,684
	To remove mortgage insurance applied to nonallowable borrowing HIM-15-1, Sections 202.2 and 2304		
10	Other Equity	104,586	
	Fixed Assets		19,217
	Cost of Capital		74
	Accumulated Depreciation		85,295
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304		
11	Nonallowable	143,521	
	Medical Supplies		9,897
	Special Services		133,624
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

CONWAY NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-CON-J8

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Special Services Nonallowable	9,581	9,581
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
13	Cost of Capital	13,263	
	Taxes and Insurance	2,334	
	Administration	2,683	
	Legal	144	
	Maintenance	2,329	
	Utilities	2,235	
	Housekeeping	4,560	
	Nonallowable		27,548
	To adjust indirect costs applicable to non-reimbursable cost centers State Plan, Attachment 4.19D		
14	Nonallowable	1,802	
	Cost of Capital		1,802
	To adjust capital return State Plan, Attachment 4.19D		

CONWAY NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-CON-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
15	Nonallowable	43,950	
	Legal		15,450
	Nursing		19,971
	Restorative		1,411
	Dietary		2,207
	Laundry		518
	Housekeeping		2,256
	Maintenance		557
	Administration		1,365
	Medical Records		55
	Medical Supplies		160
	To remove cost of unfiled claims HIM-15-1, Section 2160 State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$ <u>586,639</u>	\$ <u>586,639</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

CONWAY NURSING CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-CON-J8

	<u>Old Beds</u>	<u>New Beds</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>130</u>	<u>60</u>	
Deemed Asset Value	4,566,900	2,107,800	
Improvements Since 1981	1,128,843	-	
Accumulated Depreciation at 9/30/98	<u>(1,736,104)</u>	<u>(758,454)</u>	
Deemed Depreciated Value	3,959,639	1,349,346	
Market Rate of Return	<u>.063</u>	<u>.063</u>	
Total Annual Return	249,457	85,009	
Return Applicable to Non-Reimbursable Cost Centers	(3,219)	(1,538)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>1,127</u>	<u>2,512</u>	
Allowable Annual Return	247,365	85,983	
Depreciation Expense	84,172	65,547	
Amortization Expense	1,592	735	
Capital Related Income Offsets	(10,454)	(4,825)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,221)</u>	<u>(3,475)</u>	<u>Total</u>
Allowable Cost of Capital Expense	320,454	143,965	\$464,419
Total Patient Days (Minimum 97% Occupancy)	<u>46,027</u>	<u>21,243</u>	<u>67,270</u>
Cost of Capital Per Diem	\$ <u>6.96</u>	\$ <u>6.78</u>	\$ <u>6.90</u>

CONWAY NURSING CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-CON-J8

	<u>Old Beds</u>	<u>New Beds</u>
6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.78*	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>7.77</u>	\$ <u>6.78</u>
Reimbursable Cost of Capital Per Diem		\$6.90
Cost of Capital Per Diem		<u>6.90</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

* Cost of Capital and Return on Equity
Capital Per Diem as recalculated by DHHS,
as a result of settlement agreement, and
communicated to the provider by letter
dated January 6, 1995.

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a certain condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

Licensed Beds

During our tour of the facility, we counted 197 beds set up and prepared for use. A review of 1539 Certification documents disclosed that the Provider is certified for only 190 beds. As a result, the Provider has exceeded their licensed authority.

We recommend the Provider install procedures to ensure that the total number of beds set up and displayed never exceed licensed capacity.

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